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MICHIGAN HOUSING COMMISSION LOCAL AUDIT & FINANCE DIV.
RISK RETENTION ALLIANCE

2003/2004
COMPREHENSIVE ANNUAL
FINANCIAL REPORT

99-7-491

Compiled by:
Kimberlie Daly

MICHIGAN HOUSING COMMISSION
RISK RETENTION ALLIANCE
(MHCRRRA)

2003/2004
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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Date: June 8, 2004

To: Michigan State Department of Insurance

The Michigan Housing Commission Risk Retention Alliance ("Alliance") is an organization comprised of member housing commissions in the State of Michigan. The Alliance was formed February, 1991, to provide property and liability insurance, and consisted of 30 member commissions as of February 13, 2004. The Alliance program also includes risk management, third-party administration of claims and loss prevention services.

The Michigan Housing Commission Risk Retention Alliance is a trust voluntarily established pursuant to Section 2 of Chapter 124 (PA. 1951, No. 35, Section 2) for the purpose of providing participating housing commissions such services and security as are approved by the Board of Directors and permitted by the laws of the State of Michigan. The Bylaws established a Board of Directors would determine the general policy of the Alliance and the Chairperson would serve as the chief policy officer of the Alliance.

The development of the Alliance was in direct response to the increasing problems and costs of commercial insurance, including:

- Extraordinary swings in insurance premiums
- Lack of adequate coverage
- Unavailability of limits deemed necessary by housing commissions
- Inability to input and direct settlement of claims
- Paying premium several times greater than annual losses
- Inability of housing commissions to share in the interest income of their premium
- Lack of loss prevention programs

Based on entry procedures adopted by the Board, new prospective members to the Alliance will submit five-year loss histories with substantiating data along with exposure information on property values and number of units. The program underwriter will review the information and determine eligibility and also compatibility with current Alliance members as a whole, with an acceptable loss ratio as an established criterion for admission.

MICHIGAN HOUSING COMMISSION
RISK RETENTION ALLIANCE

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

FEBRUARY 13, 2004 AND 2003

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE

FINANCIAL STATEMENTS & SUPPLEMENTAL INFORMATION

FOR THE YEARS ENDED

FEBRUARY 13, 2004 AND 2003

(The accompanying notes are an integral
part of these financial statements.)

William R. Healy, CPA, PC

CERTIFIED PUBLIC ACCOUNTANTS
8811 WEST 159TH STREET, SUITE 3C
ORLAND HILLS, ILLINOIS 60477

(708) 349-1700

FAX (708) 349-1703

INDEPENDENT AUDITORS' REPORT

Board of Directors
Michigan Housing Commission Risk Retention Alliance

We have audited the balance sheets of Michigan Housing Commission Risk Retention Alliance as of February 13, 2004 and 2003 and the related statements of operations and members' equity and cash flows for the years then ended. These financial statements are the responsibility of the Alliance's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Michigan Housing Commission Risk Retention Alliance as of February 13, 2004 and 2003, and the results of its operations and its cash flows for the years then ended, in conformity with U.S. generally accepted accounting principles.

William R. Healy, CPA, PC

William R. Healy, CPA, PC
Certified Public Accountants

April 28, 2004
Orland Hills, IL

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
BALANCE SHEETS
AS OF
FEBRUARY 13, 2004 AND 2003

ASSETS

	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 3,155 =====	\$ 3,893 =====

LIABILITIES AND MEMBERS' EQUITY

Liabilities:

Accounts payable	\$ <u>3,250</u>	\$ <u>3,250</u>
	3,250	3,250
Members' equity (deficit)	<u>(95)</u>	<u>643</u>
	\$ 3,155 =====	\$ 3,893 =====

The accompanying notes are an integral part of
these financial statements.

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
 STATEMENTS OF OPERATIONS AND MEMBERS' EQUITY
 FOR THE YEARS ENDED
 FEBRUARY 13, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
Revenue		
Member premiums	\$1,009,107	\$ 892,781
Interest income	<u>297</u>	<u>625</u>
Total revenue	1,009,404	893,406
Expenses		
Insurance premiums	974,407	874,683
Service fee	27,500	27,500
Loss prevention service	5,000	5,000
Administrative expenses:		
Legal and professional	2,703	2,967
Other	<u>532</u>	<u>543</u>
Total expenses	<u>1,010,142</u>	<u>910,693</u>
Excess of revenue over (under) expenses	(738)	(17,287)
Members' Equity - beginning of year	<u>643</u>	<u>17,930</u>
Members' Equity (Deficit)		
- end of year	\$(95) =====	\$ 643 =====

The accompanying notes are an integral part of
 these financial statements.

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
FEBRUARY 13, 2004 AND 2003

	<u>2004</u>	<u>2003</u>
<u>Cash flows from operating activities</u>		
Excess of revenue over (under) expenses	\$(738)	\$(17,287)
Changes in assets and liabilities	<u>-</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(738)	(17,287)
Cash and cash equivalents - beginning of year	<u>3,893</u>	<u>21,180</u>
Cash and cash equivalents - end of year	\$ 3,155 =====	\$ 3,893 =====

The accompanying notes are an integral part of
these financial statements.

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED
FEBRUARY 13, 2004 AND 2003

NOTE

1. NATURE OF ENTITY AND SIGNIFICANT ACCOUNTING POLICIES

The Michigan Housing Commission Risk Retention Alliance (the "Alliance") was established February 14, 1991, under the laws of the State of Michigan as a governmental group risk retention alliance. The Alliance provides insurance under which the members are covered for various types of risk including property, general liability, boiler and machinery, and public officials liability. Membership is open to all housing commissions in the State of Michigan. Memberships in the Alliance totaled 30 and 31 for the years ended February 13, 2004 and 2003.

Alliance's general objectives are to provide risk management consisting of compensating members for losses, costs and expenses related to the stated coverages, and to utilize the premiums paid by members to defend any member of the Alliance against stated liability or loss. Membership in the Alliance is considered after a formal request for bid.

The Alliance's underwriting and rate setting policies are established after consultation with insurance underwriters and the program administrator. Members are given at least 30 days notice to pay annual premiums to the Alliance.

Cash and cash equivalents - The Alliance considers all certificates of deposit purchased with a maturity of three months or less to be cash equivalents.

Insurance coverage - The Alliance maintains insurance coverage for payment of all claims incurred during the years ended February 13, 1995 through 2004.

Federal income tax status - The Alliance is treated as a tax-exempt trust under Section 115 of the Internal Revenue Code. Accordingly no provision for income taxes is reflected in the financial statements.

Use of estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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Board of Directors
Michigan Housing Commission Risk Retention Alliance

We have audited the financial statements of the Michigan Housing Commission Risk Retention Alliance for the years ended February 13, 2004 and 2003. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information on pages 7 and 8 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the procedures applied in the audits of the basic financial statements and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The schedule of operations by policy year on page 9 has been compiled from financial statements for each of the respective years shown in the schedule of operations by policy year. In our opinion, the schedule of operations by policy year is fairly stated in all material respects in relation to the financial statements from which it has been derived.

William R. Healy, CPA, PC
William R. Healy, CPA, PC
Certified Public Accountants

April 28, 2004
Orland Hills, IL

**MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
SCHEDULE OF CLAIMS INFORMATION FOR ALL LINES OF COVERAGE**

CLAIMS DEVELOPMENT INFORMATION

The table below illustrates how the Alliance's earned revenue (net of excess insurance) and investment income compare to related costs of loss (net of loss assumed by excess insurers) and other expenses assumed by the Alliance as of the end of each of the years since 1994. The rows of the table are defined as follows:

- 1) This line shows the total of each fiscal year's earned premium revenue and investment revenue.
- 2) This line shows each fiscal year's other operating costs of the Alliance including overhead and claims expense not allocable to individual claims.
- 3) This line shows the Alliance's incurred claims and allocated claim adjustment expense (both paid and accrued) as originally reported at the end of the first year in which the event that triggered coverage under the contract occurred (called policy year).
- 4) This section shows the cumulative amounts paid as of the end of the successive years for each policy year.
- 5) This section shows how each policy year's incurred claims increased or decreased as of the end of successive years. This annual reestimation results from new information received on known claims, reevaluation of existing information on known claims, as well as emergence of new claims not previously known.
- 6) This line compares the latest reestimated incurred claims amount to the amount originally established (line 3) and shows whether this latest estimate of claims cost is greater or less than originally thought. As data for individual policy years mature, the correlation between original estimates and reestimated amounts is commonly used to evaluate the accuracy of the incurred claims currently recognized in less mature policy years.

	FISCAL YEAR OR POLICY YEAR ENDED FEBRUARY 13										
	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
1) Earned premiums and investment revenue net of insurance premiums	\$ 34,997	\$ 18,723	\$ 29,204	\$ 34,165	\$ 14,871	\$ (1,341)	\$ 50,364	\$ 15,401	\$ 5,366	\$ 17,710	\$ 96,148
2) Unallocated expenses	35,735	36,010	29,678	31,920	22,748	33,645	34,983	16,910	10,249	4,104	29,861
3) Estimated incurred claims and expenses, end of policy year	-	-	-	-	-	-	-	-	-	-	116,364
4) Paid (cumulative) as of -											
End of policy year	-	-	-	-	-	-	-	-	-	-	75,060
One year later	-	-	-	-	-	-	-	-	-	-	80,606
Two years later	-	-	-	-	-	-	-	-	-	-	85,601
Three years later	-	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-	-
5) Re-estimated incurred claims and expenses:											
End of policy year	-	-	-	-	-	-	-	-	-	-	116,364
One year later	-	-	-	-	-	-	-	-	-	-	98,624
Two years later	-	-	-	-	-	-	-	-	-	-	85,601
Three years later	-	-	-	-	-	-	-	-	-	-	-
Four years later	-	-	-	-	-	-	-	-	-	-	-
6) Increase (decrease) in estimated incurred claims from end of policy year	-	-	-	-	-	-	-	-	-	-	(29,863)

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
SCHEDULE OF OPERATIONS BY POLICY YEAR
YEAR ENDED FEBRUARY 13, 2004

	<u>1991/92</u>	<u>1992/93</u>	<u>1993/94</u>	<u>1994/95</u>	<u>1995/96</u>	<u>1996/97</u>	<u>1997/98</u>	<u>1998/99</u>	<u>1999/00</u>	<u>2000/01</u>	<u>2001/02</u>	<u>2002/03</u>	<u>2003/04</u>	<u>TOTAL</u>
REVENUE														
Member premiums	\$ 21	\$ 166	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,009,107	\$ 1,009,107
Interest income	-	-	-	52	-	-	58	-	-	-	-	-	-	297
Other income	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	21	166	-	52	-	-	58	-	-	-	-	-	1,009,107	1,009,404
EXPENSES														
Insurance premiums	-	-	-	-	-	-	-	-	-	-	-	-	974,407	974,407
Service fee	-	-	-	-	-	-	-	-	-	-	-	-	32,500	32,500
Administrative expenses:														
Office	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Legal and professional	-	-	-	-	-	-	-	-	-	-	-	-	2,703	2,703
Other	-	-	-	-	-	-	-	-	-	-	-	-	532	532
Total expenses	-	-	-	-	-	-	-	-	-	-	-	-	1,010,142	1,010,142
Excess of Revenue Over (Under) Expenses	\$ 21	\$ 166	\$ -	\$ 52	\$ -	\$ -	\$ 58	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (1,035)	\$ (738)

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE
SCHEDULE OF OPERATIONS BY POLICY FROM INCEPTION
FEBRUARY 14, 1991 THROUGH FEBRUARY 13, 2004

	1991/92	1992/93	1993/94	1994/95	1995/96	1996/97	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	TOTAL
REVENUE														
Member premiums	\$ 213,947	\$ 258,621	\$ 274,623	\$ 275,363	\$ 394,654	\$ 447,055	\$ 383,459	\$ 411,976	\$ 418,159	\$ 632,592	\$ 638,333	\$ 892,781	\$ 1,009,107	\$ 6,250,670
Interest income	2,648	9,137	254	3,025	103	55	2,765	-	-	-	-	-	-	17,987
Other income	-	-	-	-	-	-	-	-	-	-	32	-	-	32
Total revenue	216,595	267,758	274,877	278,388	394,757	447,110	386,224	411,976	418,159	632,592	638,365	892,781	1,009,107	6,268,689
EXPENSES														
Provision for claims - payments	42,457	40,924	85,601	-	-	-	-	-	-	-	-	-	-	168,982
Insurance premiums	107,169	161,618	178,729	258,254	389,391	431,709	333,315	413,317	403,288	601,352	611,817	874,683	974,407	5,739,049
Service fee	58,785	-	64,006	-	2,593	10,500	26,950	24,170	15,250	20,500	25,250	32,500	32,500	313,004
Administrative expenses:														
Office	1,488	627	1,179	686	361	430	261	834	334	73	34	-	-	6,307
Legal and professional	-	10,493	6,045	250	3,685	4,500	5,050	5,274	5,375	8,500	3,007	2,967	2,703	57,849
Other	277	3,188	3,651	3,168	3,610	1,480	2,722	3,367	1,789	2,847	1,419	543	532	28,593
Total expenses	\$ 210,176	216,850	339,211	262,358	399,640	448,619	368,298	446,962	426,036	633,272	641,527	910,693	1,010,142	6,313,784
Excess of Revenue Over (Under) Expenses before extraordinary item	6,419	50,908	(64,334)	16,030	(4,883)	(1,509)	17,926	(34,986)	(7,877)	(680)	(3,162)	(17,912)	(1,035)	(45,095)
Extraordinary item - forgiveness of debt	-	-	45,000	-	-	-	-	-	-	-	-	-	-	45,000
Excess of Revenue Over (Under) Expenses	\$ 6,419	\$ 50,908	\$ (19,334)	\$ 16,030	\$ (4,883)	\$ (1,509)	\$ 17,926	\$ (34,986)	\$ (7,877)	\$ (680)	\$ (3,162)	\$ (17,912)	\$ (1,035)	\$ (95)



Casualty Actuarial Consultants, Inc.

March 18, 2004

Commissioner of Insurance
Insurance Bureau
Michigan Department of Licensing and Regulation
P. O. Box 30220
Lansing, Michigan 48909

**RE: MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE--
STATEMENT OF ACTUARIAL OPINION**

Dear Commissioner:

I, J. Edward Costner, President, am associated with the firm of Casualty Actuarial Consultants, Inc. I am a member of the American Academy of Actuaries and an Associate of the Casualty Actuarial Society and meet the qualification standards of these organizations. I have been retained by the Michigan Housing Commission Risk Retention Alliance with regard to loss and loss adjustment expense reserves.

I have examined the actuarial assumptions and methods used in determining the reserves listed below, as shown in the Annual Statement of the association as prepared for filing with state regulatory officials, as of 2/13/04. The opinion given includes estimates for:

- A) The reserve for unpaid losses and loss adjustment expenses of \$0.

In forming my opinion on the loss and loss adjustment expense reserves, I relied upon data prepared by the responsible officers, employees, or agents of the association. I evaluated that data for reasonableness and consistency. In other respects, my examination included such review of the actuarial assumptions and methods used and such tests of the calculations as I considered necessary.

To my knowledge, none of the reserves have been discounted for anticipated investment income, there have been no retroactive or financial reinsurance, and the reinsurance that is in place has been collected to date and is believed to be collectible in the future.

Statement of Actuarial Opinion

Page 2

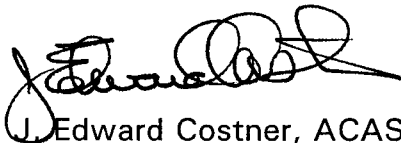
In my opinion, the amounts carried in the balance sheet on account of the items identified above:

- A) meet the requirements of the insurance laws of Michigan,
- B) are computed in accordance with accepted loss reserving standards and principles, and,
- C) make a reasonable provision for all unpaid loss and loss expense obligations of the association under the terms of its policies and agreements.

This is the fifth opinion I have rendered for the association and the eleventh opinion rendered for the association by our firm. The methodology employed is consistent with the methodology used in the certification process for yearend 2/13/94 through 2/13/03.

A letter supporting the findings expressed in this statement of actuarial opinion has been provided to the association for regulatory examination.

Sincerely,



J. Edward Costner, ACAS, MAAA
President

Casualty Actuarial Consultants, Inc.
Suite 225
7101 Executive Center Drive
Brentwood, Tennessee 37027
(615) 371-5339

March 18, 2004

MICHIGAN HOUSING COMMISSION
RISK RETENTION ALLIANCE
(MHCRA)

2003/2004
COMPREHENSIVE ANNUAL FINANCIAL REPORT

INVESTMENT SCHEDULE
As of 2/13/04

<u>Cash and Money Market</u>	<u>\$3,155.34</u>
TOTAL	\$3,155.34

MICHIGAN HOUSING COMMISSION RISK RETENTION ALLIANCE (MHCRRRA)
2003/2004 COMPREHENSIVE ANNUAL FINANCIAL REPORT

MEMBER SCHEDULE

As of 2/13/04

Alma Housing Commission
Bangor Housing Commission
Bath Township Housing Commission
Battle Creek Housing Commission
Belding Housing Commission
Big Rapids Housing Commission
Bronson Housing Commission
Cadillac Housing Commission
Caseville Housing Commission
Cheboygan Housing Commission
Coldwater Housing Commission
Covert Public Housing Commission
Dowagiac Housing Commission
Eastpointe Housing Commission
Elk Rapids Housing Commission
Ewart Housing Commission
Greenville Housing Commission
Jackson Housing Commission
Middleville Housing Commission
Montcalm Housing Commission
Munising Housing Commission
New Haven Housing Commission
Pottersville Housing Commission
Reed City Housing Commission
River Rouge Housing Commission
Rogers City Housing Commission
Romulus Housing Commission
Royal Oak Township Housing Commission
South Haven Housing Commission
Wyoming Housing Commission